ENB on the side

A Special Report on Selected Side Events at the Twenty-eighth sessions of the UN Framework Convention on Climate Change (UNFCCC) Subsidiary Bodies and Sessions of the *Ad Hoc* Working Groups

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Events convened on Thursday, 12 June 2008

CDM post-2012: supply potential and options for reform

Presented by ECN

Jane Ellis, OECD, stressed that the effect of sectoral approaches on greenhouse gas emission mitigation depends on how any potential scheme is designed.

Stefan Bakker, Energy Research Centre of the Netherlands (ECN), reported the results of a study analyzing the post-2012 carbon credit supply potential of the CDM. Noting that the study looked at the theoretical and market potential of the CDM to generate credits, he concluded that the supply potential beyond 2012 is likely to be more than sufficient for meeting global credit demand.

Jane Ellis, OECD, highlighted reasons for CDM reform, including difficulty in assessing additionality, and resource intensity of project approval. She highlighted significant variation in potential sectoral schemes, and concluded that while sectoral crediting is promising, it also has significant challenges at both national and international levels.

Yuji Mizuno, IGES, suggested removing the additionality test for certain types of CDM renewables projects, such as wind, photovoltaic, and solar, in order to promote additional greenhouse gas reductions and provide predictability to project owners.

Libasse Ba, Environment and Development Action in the Third World, Senegal, highlighted that many African countries cannot access the CDM market in the face of competition for CDM project funds from larger developing countries. He proposed facilitating market access for smaller developing countries by allocating a percentage of CDM project funding into a segregated market for them.

Stephan Schwartzman, Environmental Defense Fund, US, noted that the CDM was not designed to reduce emissions but rather to help developed countries to meet their emissions reduction targets. In order to create atmospheric benefits, he suggested progressively discounting the CDM over time in larger developed countries, such that only a specified portion of the generated credits could be used to meet emissions reduction targets while the remaining portion would be retired, thereby creating a net reduction.

On the first two presentations, participants discussed: the government's role in sectoral approaches; why sectoral approaches are a better solution than the existing CDM framework; and the impact of sectoral approaches on supply potential. Participants then voted on whether to accept or reject the CDM reforms proposed by the final three panelists, and discussed issues, including: the extent to which the additionality test is a barrier to CDM renewables projects; and how best to facilitate LDCs' access to markets.

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Financing developing country mitigation and adaptation actions: generating significant and predictable support

Presented by CCAP

Jake Schmidt, Center for Clean Air Policy (CCAP), US, noted that financing is a crucial component of delivering on the Bali Action Plan. He stressed the need for improved access to adequate, predictable, and sustainable financial resources. Schmidt highlighted that using revenues from auctioning allowances is an option for scaling up funding that is gaining attention in various countries.

Rodolfo Godinez-Rosales, Ministry of Foreign Affairs, Mexico, emphasized that the proposed World Climate Change Fund should mobilize no less than US$10 billion annually.

Rodolfo Godinez-Rosales, Ministry of Foreign Affairs, Mexico, discussed his country's World Climate Change Fund (WCCF) proposal. He stressed that all countries would contribute to the WCCF in accordance with the principle of common but differentiated responsibilities, and that the WCCF would operate under an Executive Council constituted by all participating countries.

Hanne Inger Bjurstrøm, Department of Pollution Control, Norway, discussed the possibility of building on a global cap-and-trade system in which revenues from auctioning allowances could be used to support adaptation. She said auctioning should be done at the global level and should be performed by an institution under the UNFCCC that would decide on issues such as methods for allocating funds.

Alden Meyer, Union of Concerned Scientists, US, noted that the recently proposed US Lieberman-Warner bill will likely form the starting point of future discussions on US climate change policy, and described the bill's provisions for mitigation efforts through REDD.

Participants discussed, *inter alia*: the possibility of changing the base year to 2005 in a post-2012 agreement; the issue of differential reductions; the structure and function of the proposed WCCF; and the importance of the US-China relationship in developing a post-2012 framework.

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Bunker fuel emissions, adaptation funding and technology transformation

Presented by OIES

Benito Müller, Oxford Institute for Energy Studies (OIES), UK, explained how the idea of an International Air Travel Adaptation Levy (IATAL), inspired Stochniol's International Maritime Emission Reduction Scheme (IMERS), which applies a similar levy for emissions from shipping. He added that as ODA is unlikely to generate necessary adaptation revenues, international money like the CDM levy to the Adaptation Fund, IATAL, and IMERS will be important for offering more predictable, equitable, and appropriate funding.

Benito Müller, OIES, UK, highlighted his recent report prepared for the Toyako G8 Summit, entitled International Adaptation Finance – the Need for an Innovative and Strategic Approach.

Andre Stochniol, IMERS, elaborated on the benefits of IMERS, including its ability to annually raise approximately: US$4 billion for adaptation funds in developing countries; US$4 billion for mitigation funds; and US$2 billion for technological improvements in emission efficiency and for new technologies that will have long-term mitigation benefits. He highlighted that: IMERS uses a novel hybrid economic instrument; an aggregated emission goal rather than national targets; and that there are differentiated charges for subsistence and luxury goods. He said a global approach is needed in the maritime sector to avoid trade distortion and ensure competitiveness.

Participants discussed, *inter alia*: use of JI credits encouraging economies in transition to join; concern that developed countries should be financing adaptation in developing countries, while IMERS transfers some burden to developing countries; how a levy on shipping affects trade, with large impacts on the poor; difficulties in allocating emissions over international waters; differences from the proposed Danish levy; and the possibility of the International Maritime Organization taking on the issue independent of the UNFCCC.

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Latest research results on "tackling international carbon leakage" and on "green investment schemes"

Presented by Climate Strategies

Bernhard Schlamadinger, Climate Strategies, launched the report entitled Empirical Analysis of Performance of CDM Projects, which assesses whether CDM projects produce their predicted CER volumes. He highlighted key findings, including that: registered projects achieve 75-85% of their estimated CER volumes; large variability among similar projects demonstrates the importance of project management; and unilateral projects are rejected more often than bilateral ones.

Bernhard Schlamadinger, Climate Strategies, said hydro-fluorocarbon, landfill gas, and animal waste CDM projects have not achieved expected CER volumes, while nitrous oxide projects and other projects expected to generate 20 kilotons of CERs or less annually have exceeded expected CER volumes.

Susanne Dröge, German Institute for International and Security Affairs, presented research findings on carbon leakage and the EU ETS. She explained that in the EU ETS's third phase, fewer CERs will be allocated, most of which will be auctioned, increasing the potential for carbon leakage in sensitive sectors. She discussed how three options could level the carbon price in these sectors. She focused on border adjustments, noting that only export taxes are free from World Trade Organization constraints, but could be difficult to coordinate and enforce.

Liming Qiau, Central European University, Hungary, presented on maximizing the benefits of Green Investment Schemes (GISs), highlighting that most countries with economies in transition have a surplus of Assigned Amount Units (AAUs) that result from economic recession. She said GISs are voluntary and aim to channel funds from AAU sales to areas that address climate change. She highlighted that emissions accounting, verification, and monitoring are crucial and that GIS management structures should be clear and simple.

Participants discussed: lessons learned from GISs on simplified baseline setting and verification; GIS as a bridge for Joint Implementation (JI) between the first and second commitment periods; and carbon prices as a cause of leakage.

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Road to G8 Toyako Summit: incorporating mitigation potential analysis into post-2012 negotiations

Presented by Japan

Kotaro Kawamata, Ministry of the Environment, Japan, said determining how to incorporate sectoral mitigation potential analysis into post-2012 negotiations will facilitate the G8 discussions in Toyako, Japan. Stressing the importance of halving global carbon dioxide emissions by 2050, and peaking global emissions in 10-20 years, he noted Japan's goals to: reduce emissions 60-80% domestically by 2050; start a trial national emissions trading scheme; and set a mid-term national mitigation target incorporating sectoral approaches.

Kotaro Kawamata, Ministry of the Environment, Japan, stressed that sectoral approaches would: be consistent with principles of common but differentiated responsibilities and respective capacity; consider national circumstances; and not replace national targets for developed countries.

Mikiko Kainuma, National Institute for Environmental Studies, Japan, described a study on greenhouse gas mitigation potentials and costs for 2020 by region and sector, which found that, *inter alia*: cost-effective mitigation potential is highest in non-Annex I regions, demonstrating the need for technology transfer; and regional socioeconomic characteristics impact sectoral mitigation potentials.

Jayant Sathaye, Lawrence Berkeley National Laboratory, US, stressed that including co-benefits in bottom-up analyses is critical because co-benefits can offset mitigation costs and affect sectoral rankings. He said bottom-up approaches require more detailed data and should explicitly include transaction and implementation costs.

Jens Dinkel, McKinsey and Company, Germany, explained why the negative cost options shown in cost abatement curves have not been implemented. He said setting energy efficiency standards is the best way to mitigate emissions, and suggested using mitigation potential studies to determine the effects of global target setting. Yan Xu, Macaulay Institute, UK, presented Chinese perspectives, highlighting difficulties in obtaining sectoral data and lack of technical innovation in many sectors.

Jens Dinkel, McKinsey and Company, Germany, said negative cost options have not been taken up due to: subsidies for inefficient sectors or government protection; fragmented consumer costs; agency issues; and long payback for industry investments in energy efficiency.

Subash Dhar, UNEP Risoe Centre, said emissions from India's power sector will continue to grow despite past and future energy efficiency improvements. He stressed that international cooperation is required for development of alternative generation sources and for process improvements to increase energy efficiency.

Yoshiharu Tachibana, Tokyo Electric Power Company, emphasized that bottom-up analyses can identify which technologies in specific sectors can best yield mitigation gains, noting that mitigation gaps in bottom-up and top-down results must be filled by societal changes. He said national energy policies must be considered when conducting bottom-up analyses.

Yoshikazu Yamada, Japan International Cooperation Agency, outlined challenges faced by implementation agencies. Yuka Murakami, Japan Bank for International Cooperation (JBIC), said JBIC provides development policy loans, providing an example for mitigation in the transport sector in India.

Participants discussed: the scope for applying sectoral analyses, and inclusion of land use; the challenge of promoting sectoral approaches to G-77 negotiators; and the difference between sectoral analyses and approaches.

More information:
http://www-iam.nies.go.jp/aim
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